

18-1030

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS
For The Year Ended March 31, 2004**

 **Burnside & Lang, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
Accounting Solutions That Foster Success

AUDITING PROCEDURES REPORT

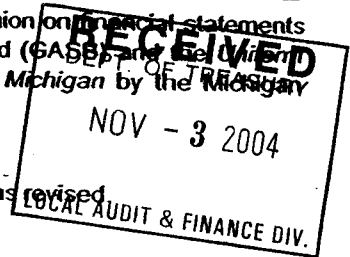
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Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name FREEMAN TOWNSHIP	County CLARE
Audit Date MARCH 31, 2004	Opinion Date JUNE 4, 2004	Date Accountant Report Submitted to State: November 1, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Michigan Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)

BURNSIDE & LANG, P.C.

Street Address

5915 EASTMAN AVENUE, SUITE 100

City

MIDLAND

State

MI

ZIP

48640

Accountant Signature

Paul A. Hammett, CPA

FREEMAN TOWNSHIP

BOARD OF TRUSTEES

Mark Lightfoot

Supervisor

Rosemary Lightfoot

Treasurer

Heather French

Clerk

Helen Bardallis

Trustee

Richard Wells

Trustee

TOWNSHIP POPULATION-2000

1,118

STATE EQUALIZED VALUE-2003

\$56,170,900

STATE TAXABLE VALUE-2003

\$40,491,052

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
MARCH 31, 2004**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Freeman Township
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeman Township, Clare County, Michigan, as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeman Township, Clare County, Michigan, as of March 31, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of March 31, 2004.

The budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Burnside & Lang, P.C.

Midland, Michigan

June 4, 2004

Audit & Assurance Services ■ Accounting & Finance Services ■ Estate & Gift Tax Planning & Consulting
Tax Planning & Preparation ■ Financial & Management Assistance ■ Business Valuations

FREEMAN TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2004

ASSETS	
Cash and cash equivalents	\$ 323,357
Taxes receivable - current	26,862
Other receivables	7,743
Due from other funds	223,972
Capital assets:	
Land	8,750
Buildings, net	66,888
Township equipment, net	2,619
Total capital assets	<u>78,257</u>
Total assets	<u>660,191</u>
LIABILITIES	
Due to other governmental units	43,747
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	53,333
Portion due or payable after one year:	
Bonds and contracts payable	<u>160,000</u>
Total liabilities	<u>257,080</u>
NET ASSETS	
Invested in capital assets	78,257
Restricted for:	
Road repair and maintenance	169,974
Garbage collection	64,527
Unrestricted	90,353
Total net assets	<u>\$ 403,111</u>

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended March 31, 2004

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 7,249	\$ -	\$ -	\$ -	\$ (7,249)
Supervisor	7,919	-	-	-	(7,919)
Treasurer	21,723	-	-	-	(21,723)
Assessing	58,959	-	-	-	(58,959)
Clerk	9,670	-	-	-	(9,670)
Elections	108	-	-	-	(108)
Board of review	732	-	-	-	(732)
Buildings and grounds	14,729	330	-	-	(14,399)
All other general government	23,636	2,175	-	-	(21,461)
Public safety	58,457	13,221	11,500	-	(33,736)
Public works	85,890	53,088	-	-	(32,802)
Community development	7,916	2,480	-	-	(5,436)
Recreation and culture	1,118	-	-	-	(1,118)
Interest and fiscal charges	13,413	-	-	-	(13,413)
Total governmental activities	\$ 311,519	\$ 71,294	\$ 11,500	\$ -	(228,725)
General revenues:					
Property taxes, levied for general purposes					51,070
Property taxes, levied for road maintenance					114,565
Property taxes, levied for fire protection					43,332
State revenue sharing					78,358
Interest earnings					1,651
Sale of assets					35,605
Miscellaneous					103
Total general revenues					324,684
Change in net assets					95,959
Net assets-beginning					307,152
Net assets-ending					\$ 403,111

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
GOVERNMENTAL FUNDS BALANCE SHEET
March 31, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 272,009	\$ 39,909	\$ -	\$ 11,439	\$ 323,357
Taxes receivable, net	5,751	15,471	5,640	-	26,862
Assessment receivable, net	-	-	-	7,743	7,743
Due from other township funds	25,926	114,594	38,107	45,345	223,972
Total assets	<u><u>\$ 303,686</u></u>	<u><u>\$ 169,974</u></u>	<u><u>\$ 43,747</u></u>	<u><u>\$ 64,527</u></u>	<u><u>\$ 581,934</u></u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other governmental units	\$ -	\$ -	\$ 43,747	\$ -	\$ 43,747
Total liabilities	<u>-</u>	<u>-</u>	<u>43,747</u>	<u>-</u>	<u>43,747</u>
Fund balances:					
Unreserved and undesignated	303,686	169,974	-	64,527	538,187
Total fund balances	<u>303,686</u>	<u>169,974</u>	<u>-</u>	<u>64,527</u>	<u>538,187</u>
Total liabilities and fund balances	<u><u>\$ 303,686</u></u>	<u><u>\$ 169,974</u></u>	<u><u>\$ 43,747</u></u>	<u><u>\$ 64,527</u></u>	<u><u>\$ 581,934</u></u>

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2004

Total fund balances for governmental funds (Exhibit 3) \$ 538,187

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land

\$ 8,750

Buildings and improvements, net of \$34,963 accumulated depreciation

66,888

Township equipment, net of \$3,314 accumulated depreciation

2,619

Total capital assets

78,257

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at March 31, 2004 are:

2002 Michigan Transportation Fund Notes

\$ (213,333)

(213,333)

Total net assets of governmental activities (Exhibit 1)

\$ 403,111

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended March 31, 2004

	General Fund	Road Fund	Fire Fund	Garbage Collection Fund	Total
REVENUES					
Property taxes and related fees	\$ 51,070	\$ 114,565	\$ 43,332	\$ -	\$ 208,967
Licenses and permits	12,836	-	-	-	12,836
Federal aid	11,500	-	-	-	11,500
State aid	78,743	-	-	-	78,743
Charges for services	4,709	-	-	-	4,709
Interest and dividends	1,651	-	-	-	1,651
Rents and royalties	330	-	-	-	330
Special assessments	-	-	-	-	-
Sale of assets	35,605	-	-	53,088	53,088
Miscellaneous	49	-	-	-	35,605
Total revenues	196,493	114,565	43,332	53,088	407,478
EXPENDITURES					
General government	141,171	-	-	-	141,171
Public safety	15,125	-	43,332	-	58,457
Public works	34,030	5,000	-	46,860	85,890
Community development	7,916	-	-	-	7,916
Recreation and culture	1,118	-	-	-	1,118
Debt service	-	66,746	-	-	66,746
Total expenditures	199,360	71,746	43,332	46,860	361,298
Net change in fund balances	(2,867)	42,819	-	6,228	46,180
Fund balances-beginning	306,553	127,155	-	58,299	492,007
Fund balances-ending	\$ 303,686	\$ 169,974	\$ -	\$ 64,527	\$ 538,187

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
March 31, 2004

Net change in fund balances - total governmental funds (Exhibit 4)		\$ 46,180
The change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$0) exceeded depreciation (\$3,554) in the current period.		
		<u>(3,554)</u>
Note proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Repayments:		
2002 Michigan Transportation Fund Notes	<u>53,333</u>	<u>53,333</u>
Change in net assets of governmental activities (Exhibit 2)		<u>\$ 95,959</u>

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
March 31, 2004

ASSETS

Cash and cash equivalents

Total assets

\$	223,972
	<u>223,972</u>

LIABILITIES

Due to other funds

Total liabilities

223,972223,972**NET ASSETS**

\$	-
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The accompanying notes are an integral part of these financial statements.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected five-member board. The accompanying financial statements present the Township's operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Real property taxes not collected as of March 1st are turned over to Clare County, which advances the Township 100% for the delinquent taxes.

The 2003 taxable valuation of the Township totaled \$40.5 million, on which ad valorem taxes levied consisted of .8327 mills for Township operating purposes, .6246 mills for fire protection, .5000 special assessment millage for fire protection, and 2.8301 mills for road repair and maintenance. These amounts are recognized in the General, Fire and Road Funds as current tax revenue.

The government reports the following funds:

The General Fund is the governments primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund accounts for the repair and maintenance of roads within the Township.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

The Fire Fund accounts for the Township's fire protection contract with Lincoln Township, Clare County.

The Garbage Collection Fund accounts for providing garbage and rubbish collection financed by an annual special assessment.

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Building and improvements	25 to 40 years
Furniture and equipment	5 to 15 years

Long-Term Obligations—In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—General Government	\$ 132,400	\$ 141,171
General Fund—Public Works	20,050	34,030
Road Fund	0	71,746
Fire Fund	0	43,332
Garbage Collection Fund	0	46,680

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 323,357	\$ 223,972	\$ 547,329
Total	<u>\$ 323,357</u>	<u>\$ 223,972</u>	<u>\$ 547,329</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificates of deposit)	\$ 547,329
Total	<u>\$ 547,329</u>

The bank balance of the government deposits is \$548,076, of which \$100,000 is covered by federal deposit insurance.

The Township's investments are categorized as risk category 1, which gives an indication of the level of risk assumed by the entity. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 35,000	\$ -	\$ 26,250	\$ 8,750
Capital Assets Being Depreciated				
Buildings and improvements	101,850	-	-	101,850
Furniture and equipment	5,934	-	-	5,934
Subtotal	107,784	-	-	107,784
Less Accumulated Depreciation for				
Buildings and improvements	32,416	2,547	-	34,963
Furniture and equipment	2,306	1,008	-	3,314
Subtotal	34,722	3,555	-	38,277
Net Capital Assets Being Depreciated	73,062	(3,555)	-	69,507
Governmental Activities Capital Assets-Net of Depreciation	\$ 108,062	\$ (3,555)	\$ -	\$ 78,257

Depreciation expense was charged to programs of the Township as follows:

Buildings and improvements - Buildings and grounds	\$ 2,546
Furniture and equipment - Clerks's office	544
Furniture and equipment - Assessor's office	340
Furniture and equipment - Buildings and grounds	125
Total depreciation expense	<u>\$ 3,555</u>

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 25,926	Tax Collection	\$ 223,972
Road	114,594		
Fire	38,107		
Garbage Collection	45,345		
Total	<u>\$ 223,972</u>	Total	<u>\$ 223,972</u>

NOTE 6. LONG-TERM DEBT

The Township can issue bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Contractual obligation activity can be summarized as follows:

	<u>Interest Rates</u>	<u>Balance 04-01-03</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 3-31-04</u>
2002 Michigan Transportation Fund Notes	2.65% to 4.15%	\$ 266,666	\$	\$ 53,333	\$ 213,333
Total		<u>\$ 266,666</u>	<u>\$</u>	<u>\$ 53,333</u>	<u>\$ 213,333</u>

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2004**

NOTE 6. LONG-TERM DEBT (Continued)

Scheduled principal maturities of long-term debt for years subsequent to March 31, 2004 are as follows:

<u>Year Ending March 31</u>	
2005	\$ 53,333
2006	53,333
2007	53,333
2008	53,334
	<hr/>
	<u>\$ 213,333</u>

Total interest costs for the year ended March 31, 2004 was \$13,413, all of which was charged to expense.

NOTE 7. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8. PENSION PLAN

The Township provides pension benefits to its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Participants are required to contribute 7.5% of their salary, and the Township is required to contribute an additional 7.5% of the participant's salary. In accordance with these requirements, the Township contributed \$2,253 during the fiscal year ended March 31, 2004.

NOTE 9. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

As of and for the year ended March 31, 2004, the Township implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

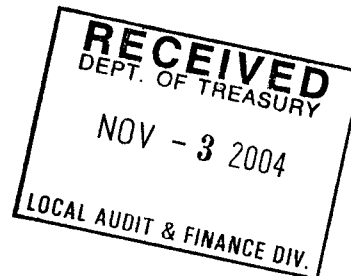
FREEMAN TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2004

Exhibit 6

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 49,000	\$ 49,000	\$ 51,070	\$ 2,070
Licenses and permits	18,500	18,500	12,836	(5,664)
Federal aid	-	-	11,500	11,500
State aid	115,000	115,000	78,743	(36,257)
Charges for services	6,450	6,450	4,709	(1,741)
Interest and dividends	2,050	2,050	1,651	(399)
Rents and royalties	300	300	330	30
Fines and forfeits	250	250	-	(250)
Sale of assets	-	-	35,605	35,605
Miscellaneous	500	500	49	(451)
Total revenues	192,050	192,050	196,493	4,443
EXPENDITURES				
General Government:				
Towship board	\$ 8,450	\$ 8,450	\$ 7,249	\$ 1,201
Supervisor	10,600	10,600	7,919	2,681
Treasurer	21,750	21,750	21,723	27
Assessing	29,250	29,250	58,619	(29,369)
Clerk	14,000	14,000	9,127	4,873
Elections	2,800	2,800	108	2,692
Board of review	4,050	4,050	732	3,318
Buildings and grounds	15,000	15,000	12,229	2,771
Cemetery	1,500	1,500	1,480	20
All other general government	25,000	25,000	21,985	3,015
Public Safety:				
Liquor enforcement	385	385	385	-
Building inspections	5,750	5,750	5,408	342
Electrical inspections	6,800	6,800	6,377	423
Blight enforcement	4,100	4,100	2,955	1,145
Public Works:				
Street lights	300	300	234	66
Road maintenance	13,000	13,000	23,952	(10,952)
Transfer station	6,750	6,750	9,844	(3,094)
Community Development:				
Planning commission	5,500	5,500	3,532	1,968
Zoning board of appeals	1,000	1,000	1,127	(127)
Zoning administration	4,100	4,100	3,257	843
Recreation and Culture:				
Library contract	1,200	1,200	1,118	82
Total expenditures	181,285	181,285	199,360	(18,075)
Net change in fund balances	10,765	10,765	(2,867)	(13,632)
Fund balances-beginning	306,553	306,553	306,553	-
Fund balances-ending	\$ 317,318	\$ 317,318	\$ 303,686	\$ (13,632)

June 4, 2004

Members of the Township
Board of Trustees
Freeman Township
Clare County, Michigan



Dear Board Members:

In planning and performing our audit of the financial statements of Freeman Township (the "Township"), for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Budgeting

Our review of the Township's meeting minutes showed that the Township did not formally approve the fiscal 2005 budget until April 2004. Furthermore, the Township did not adopt budgets for its special revenue funds for fiscal 2004. The Michigan Department of Treasury's suggested procedure to comply with the Uniform Budgeting Act is for the Legislative body of the local unit to adopt a budget 1-2 months prior to the beginning of the ensuing fiscal year. We recommend the Township Board of Trustees adopt all future budgets prior to April 1 of each year, and record all budget amendments prior to March 31.

Overspending of Budgeted Amounts

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of amounts appropriated in the General Fund and Special Revenue Funds.

Overspending of Budgeted Amounts (Continued)

We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

Bank Reconciliations

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

Tax Remittances

Bank balances in the tax collection accounts totaled \$223,972 at March 31, 2004. These monies represent amounts owed to the Township's general and special revenue funds. By the end of March, local unit treasurers should have disbursed all monies (except for bank minimum balance requirements) to the respective taxing units. We recommend the treasurer disburse all monies collected by March 31 of each year.

General Ledger

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund is not maintained by the Clerk on the General Ledger. We recommend the Clerk establish this fund on the General Ledger to report this information on a monthly basis so that Township Board of Trustee members can perform their financial oversight responsibility.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Financial Oversight

The general limitations in any smaller municipalities like Freeman Township requires that Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Our comment here is intended to emphasize the importance of its oversight.

Board Minutes

Municipalities must document within board minutes matters or events that materially affect the financial statements. We submit for future reference the following partial list of information that should be considered when preparing and approving minutes:

- Indications of new or additional sources of support or revenue, or reduced or terminated sources.
- Acknowledgment of contributions, gifts, and grants received, and the nature of restrictions or requirements related to such items.
- Approval of agreements with funding sources and related budgets.
- Approval of budgets for governmental and related funds.
- Approval of changes in dues, rates, fees, or prices to be charged for services or items sold.
- Awards, renewals, or cancellations of grants to other organizations.
- Satisfaction, termination, or lapse of significant restrictions on assets.
- Indications of new employees and their functions, personnel termination, or use of donated services.
- Significant purchases, or commitments of future significant purchases.
- Lease agreements entered into.
- Bank accounts opened and closed, and restrictions on bank accounts.
- Debt agreements made and related requirements.
- Official or employee fidelity and faithful performance bond requirements.
- Approval of new or revised employee benefit plans.
- Existing or pending lawsuits.
- Approval of inter-fund loans or transfers, and designations of fund balances.
- Audits by other governmental units.
- Determination that an inter-fund loan is uncollectible.
- Identification of a related party or a transaction with a related party.

By using this information as a checklist when preparing and approving the meeting minutes, the Township can adequately document matters that may materially affect the financial statements or which require footnote disclosure.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2004, financial statements, and this report does not affect our report on those financial statements dated June 4, 2004. We have not considered internal control since the date of our report.

This report is intended for the information of the members of Freeman Township Board of Trustees and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Burnside & Lang, P.C.

BURNSIDE & LANG, P.C.